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# **Soviet Union**

***USA: ECONOMICS, POLITICS, IDEOLOGY***  
No 3, March 1989

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[The following are translations of selected articles in the Russian-language monthly journal SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA published in Moscow by the Institute of U.S. and Canadian Studies of the USSR Academy of Sciences. Refer to the table of contents for a listing of any articles not translated.]

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USA: Economics, Politics, Ideology

No 3, March 1989

**'Disarmament' Approach Preferred Over  
'Deterrence'**

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IDEOLOGIYA in *Russian No 3, Mar 89 (signed to  
press 15 Feb 89) pp 3-11*

[Article by Vladislav Lvovich Lvov, candidate of historical sciences: "Nuclear Disarmament: In Search of a Common Approach"]

[Text] The main point of reference for Soviet policy in the sphere of disarmament is the program set forth in M.S. Gorbachev's statement of 15 January 1986 on the elimination of nuclear weapons by the end of the 20th century. The Soviet Union's subsequent moves—primarily the "double zero option" initiative on intermediate- and shorter-range missiles and the willingness to reduce strategic offensive arms by 50 percent and to eliminate imbalances and asymmetry and conduct the systematic reduction of armed forces and conventional arms in Europe—are directly related to the efforts to carry out this program. They have already produced tangible results: The conclusion of the Soviet-American INF Treaty has been called the first step on the road to a nuclear-free world. There are also some fundamental problems, however, which must be solved before we can attain our goals. These problems are so massive in scale that the opponents of nuclear disarmament never tire of accusing the Soviet Union of setting unrealistic objectives.

The main target of criticism is the idea of the nuclear-free world itself, which is contrary to the philosophy of confrontation by force in the world arena and to the view of nuclear weapons as a means of preventing war. More specifically, the Soviet program for the elimination of nuclear weapons is contrary to the strategy of nuclear deterrence conducted by the United States and its NATO allies. The USSR has resolutely criticized the postulates of this strategy on the official level and in the press, and in response it has heard acknowledgements of the accuracy of many of its own arguments. Virtually all of the Soviet Union's opponents in this theoretical argument agreed that nuclear deterrence is an extremely flawed and risky way of maintaining security in today's world, but they feel that there is no other choice.

In spite of their diverging views and opinions, the USSR and the United States are negotiating the reduction of nuclear weapons and are even concluding important agreements, but the process the Soviet Union regards as advancement toward a nuclear-free world represents nothing more than "arms control" to most Western politicians.

Can this conflict be resolved during the implementation of the program? What if the West's adherence to the strategy of nuclear deterrence impedes the movement toward a nuclear-free world? When we consider these

questions, it is important to remember that we can only build a nuclear-free world in conjunction with the West, as a result of interaction and cooperation. Confrontations over disarmament issues are the surest way of reducing the goal to mere slogans. It is from this vantage point that we should approach the analysis of the problems standing in the way of the implementation of the Soviet program for the elimination of nuclear weapons, especially the problem of deterrence.

We proposed the move to a nuclear-free world because we could see that we were in danger of reaching the critical point in the arms race at which the military-strategic situation could be destabilized dramatically. It would be wrong to say that people in the West underestimate the danger of continuing the arms race or are deliberately striving for dramatic destabilization. This kind of dangerous destabilization would be objectively injurious to the interests of every single NATO member, including the United States, which is hardly likely to want a test of the strength of its ABM system even after it has carried out its SDI program in one form or another. There is not a single government in NATO that would not advocate the elimination of nuclear weapons in principle, but the rejection of the idea of nuclear disarmament will be the prevailing response in the United States and Western Europe as long as political conflicts between the East and the West exist, or, in the broader context, as long as the system of international relations exists in its present form.

The United States and its main allies base their policies on the expectation of competition and confrontation of a primarily forcible nature in world affairs. They believe that forcible deterrence is needed to keep this confrontation from turning into war. Criticism of the strategy of deterrence and its derivative, the NATO doctrine of "flexible response" in Europe, will not be enough to change their minds. This would require the refutation of the entire philosophy of international relations we call bourgeois.

An analysis of Western, and particularly American, theories postulating either an ideologized ("political idealism") or purely forcible ("political realism") approach to international relations attests to their common basis: In a heterogeneous world divided into social systems or consisting of sovereign national governments, force in one form or another will continue to represent a determining factor in international relations, and deterrence will continue to regulate the use of force. It is significant that this is not simply an academic exercise, but the accepted philosophy of most of the members of Western ruling circles and the Western public; it is a matter of public opinion, which, as we know, is shaped by everyday life. It would be absurd to deny that these views are also part of our beliefs about the world. In any case, they are fairly widespread on the level of common assumptions.

The possibility of renouncing deterrence and accomplishing disarmament is theoretically accepted only under

the conditions of a homogenous (or unvarying) world, and only by the supporters of the leftwing liberal theory of "world federalism," who advocate the reorganization of the system of international relations in line with the concept of the "united states of the world." They say that it is impossible to imagine a war or an arms race between, for example, Kansas and Arizona, because they have turned over much of their national sovereignty to a democratically elected federal government. They feel that the organization of a world federation under a world government would eliminate wars and the arms race.

The theory of "world federalism" has not won much recognition in the West and is criticized by many as a utopian idea. Viewing the military rivalry between East and West and the growth of nationalism as the prevailing tendencies in postwar world development, the United States and its allies see nuclear weapons as one of the main ways of securing the stability of the international system of states. They agree in principle that the importance of military force in international relations could decline as political conflicts grow less severe, but never below the level necessitating deterrence. This is the basic premise of the Western concept of "arms control."

Staying within these bounds, the United States and its allies propose their own ways of neutralizing the dangers engendered by the arms race. As we know, the United States proposed substantial reductions in USSR and U.S. strategic nuclear forces, the global destruction of intermediate-range missiles, and the organization of nuclear threat reduction centers. Long-range plans are being drawn up for the reinforcement of strategic stability in conjunction with the Soviet Union by enhancing the survivability of strategic offensive arms and by effecting a transition to less destabilizing weapons systems, but none of this can affect the bases of the strategy of deterrence.

The most radical proposal in this context was President Reagan's "Strategic Defense Initiative" (SDI). As we know, he wanted to find out whether effective protection from a nuclear attack would be possible, and if so, to use this possibility for the safeguarding of security.

This idea seems to have gained considerable support largely because it was seen as a way of reducing the danger of war—a new concept of "deterrence through defense," and a much safer concept than "deterrence through intimidation." It was no coincidence that when Reagan set forth the idea of the SDI, he magnanimously declared that the United States would share its technology with the USSR if the project should turn out to be feasible.

The problem with the SDI is that the strategic ABM system with space-based elements is to be deployed in addition to existing strategic offensive systems, and this would lead unavoidably to the dangerous destabilization of the military-strategic situation, which is something the Soviet Union cannot allow and which no sensible person could regard as something in the American interest. Because of the views discussed above, however, the

United States cannot take the opposite course of eliminating all strategic offensive arms first and then deploying defensive systems (against, for example, nuclear terrorists). Therefore, the idea of the SDI is groundless even on the conceptual level, not to mention technological and other aspects. Bourgeois political science has not suggested any other ways of devaluing nuclear weapons, unless the world around us changes beyond recognition.

We can criticize it as much as we want, but we cannot ignore the arguments reflecting the facts, and the facts are such that all aspects of security are interdependent in an interdependent world, and an intricate knot of the most diverse problems has to be untied before we can strive for the complete elimination of nuclear weapons, which all of the nuclear powers without exception, as well as the countries wishing to join the nuclear club, regard as the ultimate guarantee of their security and as instrument to maintain their influence in world affairs. Soviet experts on disarmament encountered this problem when they had to consider ways of building a nuclear-free world.

It was clear from the very beginning that nuclear disarmament would not be achieved immediately. To put it more precisely, part of the program could be carried out with the reserves represented by the surplus nuclear arsenals of the USSR and the United States. In other words, this part could be implemented immediately, but further progression in this direction would be increasingly difficult. The entire process of nuclear disarmament could come to a halt at the point at which nuclear arms reductions would cause qualitative changes in the military-strategic situation unless priority is assigned to other spheres of disarmament and the resolution of other international security issues.

This conclusion might seem simple, but it signified a major advance in our approach to disarmament, the struggle for which was frequently regarded as one form of class struggle in the world arena in the past. Whereas we once insisted on the need for the immediate and unconditional elimination of nuclear weapons (and even now, in our propaganda, we encounter the statement that our first objective is nuclear disarmament), today we realize that the road to a nuclear-free world lies through substantial reductions in armed forces and conventional arms, a move to defensive strategy, and radical reforms in the political, economic, humanitarian, and ecological spheres of international relations.

The statement of 15 January 1986 became part of the comprehensive Soviet concept of disarmament. In addition to the program for the elimination of nuclear weapons, it included the concept of the reduction of armed forces and conventional arms to the level of reasonable sufficiency and the concept of a comprehensive system of international security. This would entail the creation of a group of security guarantees in different areas of international life. All three elements are inter-related and must always be viewed as a single entity.



The implementation of this concept presupposes the elaboration of a multifaceted and multileveled strategy envisaging a logical sequence of action. By removing mutual worries, lowering the level of mutual threats, settling international conflicts, strengthening non-military security safeguards, and instituting other measures, we can arrive in principle at a point at which the nuclear powers will be divested of many of the arguments in favor of nuclear weapons.

Apparently, this is the only possible way of overcoming the strategy of deterrence. It will entail changes in foreign policy and the fundamental reorganization of international relations. This method might be acceptable and understandable to our Western partners, and its persistent and consistent implementation could secure gradual advancement along the road of nuclear arms reduction.

When our partners are traveling with us down that road, however, they are most likely to stop at the point where "arms control" ends and genuine nuclear disarmament begins, and then to wonder what the basis for international security would be in a nuclear-free world and what alternatives there are to the strategy of deterrence. They would probably agree to continue down that road only if they find an alternative more reliable than deterrence and realize that the world they are entering is safer than the earlier one.

In our attempt to answer these questions now, we are essentially saying that the dismantling of the now outdated and worthless mechanism of security guarantees will necessitate the creation of a new mechanism to exclude the threat of war and the very possibility of the use of force from international relations. This will not be an easy task, because it will entail the thorough reorganization of the entire system of international relations. We feel that it can be accomplished through the gradual replacement of military-force instruments for the maintenance of security with legal treaties and the constant reinforcement of security guarantees in the military, political, economic, humanitarian, and ecological spheres. This presupposes a more important role for the United Nations and other international (including regional) organizations and international regulating agencies in guaranteeing the reliable functioning of the comprehensive system of world security.

When we discuss this, we rarely mention that the question about the alternative to the strategy of deterrence has never been answered. It is the West's opinion that the comprehensive system of international security (CSIS) the Soviet Union has proposed cannot bring about the disappearance of conflicts or repeal the laws governing life in today's world, functioning on the basis of the interaction of power factors. It is possible to keep this interaction under control by using an even stronger force. If not nuclear weapons, then what? A world government?

It is true that any attempt to imagine the gradual creation of a CSIS, including the complete elimination of nuclear

weapons and reduction of armed forces and conventional arms to the level of reasonable sufficiency, might suggest something like a "world federation," headed by international regulating agencies and endowed with more sweeping powers than the United Nations, to which all members of the international community would voluntarily transfer part of their national sovereignty. This would be a centrally regulated system of international relations with a built-in mechanism of constraint by a democratically elected world government in the interest of common security. This mechanism would be a reliable alternative to the strategy of nuclear deterrence. This is simple and understandable.

It is precisely this simplicity and accessibility that are lacking in our arguments. When we avoid discussing the mechanism of constraint within the CSIS framework and the establishment and functioning of the system of international relations resulting from this, we cannot be convincing. On the other hand, we cannot openly accept the principle of "world federalism" because the program for a nuclear-free world envisages its completion by the year 2000, but the "federated community" is so different from our present surroundings that even the possibility of its establishment in the distant future does not seem quite credible.

We must admit that our concept of disarmament still does not represent a convincing alternative to nuclear deterrence as far as the guarantee of security in the nuclear-free world is concerned. This means that we have to give the most serious consideration to the possibility that we will enter the 21st century with nuclear weapons and will continue living with them for an indefinite period of time—until the objective prerequisites for a move from one way of safeguarding security to another exist in reality, and not just in theory. The interests of self-preservation and the survival of mankind clearly point up the imperative nature of nuclear disarmament, but the attainment of this goal will apparently take more time and more flexible approaches than we thought 3 years ago. The very idea of nuclear disarmament presupposes a different, more complex sequence of action with regard to the entire group of security issues, preceded by a much more thorough analysis of all these issues.

Without giving up the ideals of the nuclear-free world, we should probably conduct this thorough and difficult work with patience, gradually urging our partners to acknowledge the accuracy of our arguments and laying the foundation for the future system of international relations based on the new principles. In view of the West's continued adherence to nuclear deterrence, which strategy should we choose? First it will be important to clarify our initial position. For this, we have to dispense with labels and admit that although we went through a period of "political idealism," distinguished by the idea of irreconcilable struggle by the two social systems in the world arena, we have long regarded ourselves as part of an international system which is stable because of the

maintenance of a balance of power and mutual deterrence. At the very least, this would relieve our military leaders who go to press conferences of the need to try to deny the fact that the peace between East and West for the more than 40 years since the war has been made possible by the existence of nuclear weapons. Who would know better than they that these years have been distinguished by the most acute international crises that would have led unavoidably to war under different circumstances? There is documented proof that the United States gave up the doctrine of "massive retaliation" and the plans to bomb Cuba in 1962 and to use nuclear weapons in Vietnam at the end of the 1960's because it was afraid of a nuclear confrontation with the USSR.

As part of this international system, we have to learn to live by its rules. The stability of this system, however, is being jeopardized primarily by technical developments in the military sphere. Many people agree with this. Technical progress is definitely leading to the creation of more accurate, less vulnerable, and fundamentally new weapons systems which constantly enhance the offensive and defensive capabilities of the sides. The continuation of these tendencies could lead to an extremely unstable military-strategic situation and to largely unpredictable international developments even in the presence of nuclear parity. For this reason, we realize the need to reorganize the existing system of international relations with a view to the creation of a democratic world in which there will be no room for nuclear weapons.

It would be inconceivable to specify the laws by which the entire international community should be governed, just as it would be impossible to predict the specific forms various security guarantees will take. We have expressed our opinions with regard to the CSIS concept and we invite all states to express theirs. Only concerted effort can reveal the parameters of a viable comprehensive system of international security and the specific ways of building it.

It is obvious that this kind of discussion would remove many of the conflicts between East and West, most of which have been created artificially, and promote the convergence of the views of the different sides on the prospects for arms limitation and reduction.

Furthermore, when we draw up medium- and long-range plans of action, we should be more aware that disarmament is not a universal solution to all problems and that its possibilities will be limited unless it is accompanied by advances in other areas. At this time our main concern in the world arena is the establishment of the best possible conditions for the fundamental restructuring of the economic and political system and the intensive buildup of production, scientific, and technical potential. The reinforcement of non-military instruments of Soviet foreign policy, especially economic ones, should constitute our own preparations for the renunciation of nuclear-power status in the future. Successful restructuring will necessitate the substantial devaluing of foreign and military policy, the achievement of a high

level of trust in international relations, and a change in the stereotypical beliefs about the Soviet Union that combine to make up its image abroad. All of this will require the more radical revision of our approaches to problems in the guarantee of international security and our own unilateral efforts to eliminate existing obstacles.

Despite the integrity and interdependence of today's world, one of its distinguishing features is the presence of the well-organized community of developed industrial Western countries and Japan, which have displayed, in spite of their conflicts, an increasingly methodical and coordinated approach to the main international issues. Integration processes in the capitalist world are taking place under the pressure of these issues. Furthermore, their global nature (problems connected with security, ecology, food supplies, transportation, communications, and space) is motivating the West to interact with us, and this is becoming increasingly imperative. In this atmosphere and with a view to the objectives of our program for the elimination of nuclear weapons, we must consider the expediency of not the mere normalization of relations, but a move to complete detente and convergence with the West. The policy line of glasnost and democratization would allow us to progress much farther along this road than we could have in the first half of the 1970's. This convergence would not hurt the interests of developing countries. We know from past experience that the effective resolution of problems in the "Third World" and the reliable settlement and prevention of international conflicts are impossible in an atmosphere of political confrontation. Convergence with the West and constructive efforts by the North in the search for solutions to the South's problems would do much to democratize international relations.

Finally, we have to discuss the strategy of disarmament itself. Over the long range, the interests of disarmament and stronger security would be served better by coinciding or similar theories than conflicting ideas, and by the presence of common points of view on the prospects for arms limitation and reduction. With a view to this, it would seem best to reorient our strategy to the reduction of nuclear weapons to an agreed minimum level or, as they say in the West, to the level of "minimum deterrence requirements." According to studies conducted by the Committee of Soviet Scientists for Peace and Against the Nuclear Threat, for example, under favorable conditions (cooperation by the other nuclear powers, progress in the reduction of conventional arms, and profound changes in the very content of nuclear strategy), nuclear weapons could be reduced by 95 percent without hurting their deterring function.<sup>1</sup>

There are two roads to this goal. The first is the one we are taking today. The reduction of strategic nuclear arms by 50 percent will be followed by a new agreement on another 50-percent reduction, and after the third such agreement we would be close to the 5 percent representing the minimum. This is the traditional road. It is already marked by its first milestones—the SALT I and

SALT II agreements—which might be modest in comparison with the scales of the treaty being drawn up now, but are nonetheless important. We must say, however, that although these agreements restricted the level of strategic arms, they did not curb dangerous tendencies in the development of military technology and even stimulated this development in some cases by pointing out new fields of development.<sup>2</sup>

For this reason, we can assume that by the time the treaty on the 50-percent reduction is implemented, the United States will be fully armed in the direct sense of the term for the effective control of the new strategic situation in its own interest, unless we make similar efforts, which will certainly not make the situation more stable. In other words, the limiting agreements, one of which is being drawn up today, establish points of reference for their circumvention in the development of increasingly sophisticated weapons systems. This happens because nuclear arms limitation and reduction agreements do not solve the problem of competition in the sphere of military strategy, and this will probably continue as long as general staffs exist.

The reduction of nuclear arms to an agreed minimum level would necessitate the limitation of this rivalry. The first step should be the elimination of the points of reference created by limiting agreements, and the second should be the inclusion of the entire sphere of military-strategic operations in negotiations, both the current situation in this sphere and the dynamics of its future development. For this reason, the second way of reaching the agreed minimum level seems more promising: We should work together with the United States to define the preferable military-strategic situation both sides would want to be the result of the reduction and modernization of strategic arms in the future, and then work together for its attainment—i.e., begin drawing up joint strategic plans. This idea was specifically discussed in an Atlantic Council report published in 1987.<sup>3</sup>

This would entail the closest interaction in the coordination of military organizational plans, regular consultations, including discussions of future military programs and programs of modernization, the determination of the criteria of stabilizing and destabilizing weapons systems and the mutual refusal to develop the latter, a move to strategic systems corresponding to a defensive nuclear doctrine, more open communication, confidence-building measures, etc. This kind of planning would make developments in military construction more predictable and would contribute to the maintenance of strategic stability on ever lower levels of nuclear confrontation. Support for the development of strategic defensive systems can be expected to grow much weaker in an atmosphere of constant and vigorous Soviet-American interaction in the reduction of strategic offensive arms and the reinforcement of strategic stability.

The reduction of nuclear arms itself could be carried out on a fundamentally new basis, neutralizing the destabilizing effects of competition in the sphere of military

strategy. The principle of “cross-reduction,” for example, would be suitable in this case.<sup>4</sup>

The possibility of reducing the nuclear weapons of the USSR and the United States by 95 percent will depend on many factors, including the agreement of other nuclear powers to join the reduction process. But let us assume that we have reached the level below which deterrence will not work. What do we do now? The main argument against this strategy of disarmament is that this level will become an insurmountable barrier on the road to a nuclear-free world. We could leap over the barrier in a single bound and immediately put an end to nuclear weapons. This would be wonderful if it were possible. It will be much easier, however, to reach the minimum agreed level of nuclear arms than to build a world ready and willing to accept nuclear-free status.

If we were to base our actions on the experience in implementing the program of 15 January 1986, we would have to patiently and persistently knock over all of the pillars supporting the strategy of deterrence one by one. This means that armed forces and conventional arms would have to be reduced to the level at which they would be incapable of carrying out offensive operations and would necessitate complete cooperation on the part of other nuclear powers, the appropriate work with near-nuclear states, the stricter enforcement of the rules of nuclear non-proliferation, cardinal measures for the political settlement and prevention of international conflicts, the creation and reinforcement of the bases of a comprehensive system of international security, and much more.

When we have established all of these prerequisites, we will be completely justified in discussing ways of emerging from the situation of deterrence and of prohibiting nuclear weapons. If direct progression should be difficult in this phase, we could test methods that have already been described in world scientific literature. One of them (the idea of so-called “deterrence without weapons”) envisages the retention of facilities for the production of nuclear weapons. In this case, the deterring factor would be the threat of the resumption of this production. Another method would keep nuclear weapons within national territory under the supervision of the IAEA or an agency established specifically for this purpose. Each country would be free to maintain its own nuclear potential as long as it observed the corresponding informational procedures. In both cases, no country would feel constrained to act on its threats but the deterring effect would be completely reliable.

The progress of human civilization gives us reason to hope that the international community will reach a level of maturity at which a nuclear-free world will become a reality. Of course, all of this will also depend to a considerable extent on our actions. As for our own approaches to the realization of this complex and multifaceted strategy, to which there might be no alternative,

we have reliable ways of adjusting them in line with experience in the implementation of the program of 15 January 1986.

#### Footnotes

1. "Strategic Stability at a Time of Radical Nuclear Arms Reduction," Report by the Committee of Soviet Scientists for Peace and Against the Nuclear Threat, Moscow, 1987, p 27.

2. The American military-industrial complex responded to the conclusion of the SALT II treaty in 1979, which was never ratified by the U.S. Congress but was formally observed by the United States for several years, with the massive deployment of cruise missiles of all basing varieties, taking advantage of the absence of a concrete agreement and of the opportunities created by the expiration of the corresponding protocol.

Without violating SALT II provisions, the United States launched a massive program of strategic arms modernization in the 1980's by developing several systems of a new generation (the MX, the Trident II, and the B-1). The development of "advanced" systems is under way (the Stealth technology, "penetrating" warheads, and electromagnetic guns).

3. "U.S. Policy Towards the Soviet Union: A Long-Term Western Perspective, 1987-2000. A Report of the Atlantic Council's Working Group on U.S.-Soviet Policy," Washington, 1987.

4. In particular, this principle is employed in the U.S. Naval War College for the simulation of a 50-percent reduction in strategic offensive arms. In essence, it means that each side strives to keep the systems of the greatest value to it and reduce the other side's systems of the greatest danger to it. On the practical level, the simulation is accomplished by having each side assign 10,000 points to the complete list of its own strategic systems. Then, with this limit in mind, it assesses each of its own systems in terms of effectiveness and defensive value (for instance, the sea-based systems of the greatest value to the United States would be given 3,000 points, while outdated types of ground-launched ICBM's would be given 500). After this, the sides exchange lists and assessments, and each then reduces the other side's potential by 1,000 points. This reduction is followed by the re-evaluation of systems, and this is repeated four times, resulting in the reduction of strategic offensive arms by 50 percent. The value of this method consists in the elimination of mutual concerns and the ability of the sides to carry out any type of asymmetrical arms reductions and to shape the other side's strategic forces into a defensive structure (F. Lankin and S. Fought, "Teaching About Arms Control," NAVAL WAR COLLEGE REVIEW, December 1987, pp 94-104).

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**U.S. Policy on Credits to Bloc States Viewed**  
18030009b Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 3, Mar 89 (signed to press 15 Feb 89) pp 21-29

[Article by Boris Grigoryevich Fedorov, candidate of economic sciences and senior scientific associate at Institute of World Economics and International Relations, USSR Academy of Sciences: "The United States and the Socialist Countries: Monetary and Credit Relations"]

[Text] Monetary and credit relations are an integral part of the total group of trade and economic relations between capitalist and socialist states. The nature of present-day international business practices makes trade impossible without credit and banks. In essence, any form of intergovernmental collaboration, including scientific and technical exchanges, tourism, cooperative production, and the establishment and operation of joint enterprises, presupposes monetary relations, a supply of credit, and the mediating services of banks.

The monetary and credit relations between East and West, however, differ in several significant ways from the relations between, for example, developed capitalist states. The absence of developed commodity and financial markets in the socialist countries is the reason for their non-convertible national currencies and rigid currency restrictions and the reason that their international monetary and credit relations have traditionally been geared to serving foreign trade. In essence, the international loan capital market and Western banks serve the socialist countries primarily as an additional source of financial resources. The full-fledged participation of socialist states in international monetary and credit relations is also being impeded by political restrictions on East-West economic contacts.

All of these statements apply completely to U.S. monetary and credit relations with the socialist countries. In general, the United States' role in this sphere seems paradoxical: The scales of its direct and even indirect cooperation can be described as modest at best, but its total influence is colossal because of the key role of the dollar, the economic strength of American monopolies, and the political leadership of the Western world by the United States.

#### Legislative Barriers

In contrast to other developed capitalist countries, the United States has passed a number of laws to regulate monetary and credit relations with socialist countries. In most cases they are of an overtly discriminatory nature and are intended to limit government credits to socialist countries.

The 1945 law on the U.S. Export-Import Bank, for example, stipulates that the extension of government export credits to socialist countries requires special authorization from the president—a presidential decision on their "correspondence to the national interest" of the United States (furthermore, any transaction for



more than 50 million dollars is regarded as an individual case). In the 1960's President L. Johnson made this kind of decision on trade with several European socialist countries, and in the 1970's Nixon authorized trade with the USSR and PRC. Besides this, the Stevenson amendment was added to the law in 1975 to limit total Eximbank credits and guarantees to the USSR to 300 million dollars, and the Church amendment was added the same year and set a limit of 40 million dollars (of the 300 million) for the financing of oil and gas exploration and drilling projects. These limits can be exceeded only by a special presidential decision.

The earlier Jackson-Vanik amendment to the 1974 Trade Act dealt an even more severe blow to monetary and credit cooperation. This amendment prohibited government credits and credit guarantees to countries with a non-market economy restricting the emigration of their citizens (the use of the term "non-market economy" means that the amendment was aimed directly against the socialist countries). The Jackson-Vanik amendment applied to Eximbank and to other government establishments—the Commodity Credit Corporation (CCC), which finances agricultural exports, and the Overseas Private Investment Corporation (which insures and finances private investment in developing countries, a category to which the United States assigns, for example, Romania). Besides this, the Trade Act includes the Byrd amendment, which stipulates that government credits and credit guarantees in excess of 300 million dollars cannot be extended to the Soviet Union without congressional authorization, with the exception of CCC credits—i.e., it partially limits the presidential powers stipulated in the Export-Import Bank Act.

From the very beginning, the Jackson-Vanik amendment did not apply to countries which already had most-favored-nation status in trade by that time—Yugoslavia and Poland. The administration later refused to enforce the amendment in transactions with Romania (1975), Hungary (1978), and the PRC (1980). Therefore, at this time there are direct limits on government-guaranteed credits to most of the socialist countries, although numerical ceilings have been set only for the USSR.

Commercial bank credits to socialist countries are regulated mainly by the Johnson Act of 1934 (and later amendments), which prohibits the extension of credit to countries which have not repaid their debts to the American government and are not members of the IMF and IBRD. At this time the law actually applies only to the USSR and the CSSR because of U.S. financial claims (including claims on the Soviet Union for tsarist obligations) and their non-membership in these organizations. In practice, however, the Johnson Act applies only to financial credits with no direct connection with foreign trade operations and to the issuance of bonds and other securities. It does not apply to government credit institutions or the credits of the overseas establishments of American banks.<sup>1</sup>

Besides this, the law limits credits to all borrowers, including the socialist countries, to 10 percent of the commercial bank's own assets. In the case of American bank credits to, for example, British or French firms, the 10-percent limit applies to each specific firm, and not to Great Britain or France as a whole (although the bank does have the right to set internal limits in principle), whereas each socialist country is usually regarded as a single borrower.<sup>2</sup> This naturally puts the socialist countries in an unfavorable position.

Understandably, many private banks have refrained from developing monetary and credit relations with the countries to which the government persistently refuses to extend government credits. Nevertheless, rightwing forces are trying to limit the already negligible volume of credit cooperation. In 1985 Senators J. Garn and W. Proxmire first proposed that the president have the right to oversee the extension of credits of any kind (including commercial) to countries to which exports are restricted for security reasons. This was the first time that the complete control of private crediting operations by the government was proposed in a time of peace.

The Garn-Proxmire bill has been debated for several years, but it has little chance of being passed. Anti-Soviet legislative activity, however, has continued. For several years, for example, there were rumors that the USSR was using dummy firms to acquire small banks in California and thereby gain direct access to the Silicon Valley companies specializing in high-technology development projects. As a result, a special law was passed in December 1987 to prohibit the purchase of American banks by the USSR.

In 1988 there were new demands by a group of senators and congressmen (S. Symms, J. Sasser, and others) for the stricter control of credits to the USSR and even for laws setting penalties for violators, including subsidiaries and branches of foreign banks on U.S. territory. The administration is being pressured to raise the issue of credits to the Soviet Union as a "threat" to Western security at the next meeting of the "big seven."<sup>3</sup>

#### Level of Credit Cooperation

The United States' credit cooperation with socialist countries is directly related to the scales of mutual trade and is distinguished by sensitive reactions to changes in the political climate. For most of the socialist states, including the USSR, trade, economic, and credit cooperation peaked in the first half of the 1970's as a result of the policy of detente. Between 1970 and 1975 U.S. trade with the Soviet Union increased tenfold. This process was naturally accompanied by the broader use of American credits to pay for goods. The credits were extended by banks, corporate suppliers, and government establishments. Within just 1 year after the United States and the Soviet Union concluded an intergovernmental agreement on trade financing in October 1972, 17 credit agreements were signed for a total sum of around a

billion dollars with the participation of the Export-Import Bank of the United States.<sup>4</sup> That same year an agreement was concluded on the extension of a CCC line of credit to the Soviet Union for 750 million dollars for 3 years to finance grain purchases.<sup>5</sup>

By 1974, however, the passage of discriminatory laws had already made it impossible for most of the socialist countries to obtain new government-guaranteed credits, and the volume of credit cooperation with, for example, the USSR began to decrease soon afterward. Until the beginning of the 1980's the main recipients of American credits were Poland and Yugoslavia and, to a lesser degree, Romania and Hungary (after they had won most-favored-nation status). In 1985, for example, around 90 percent of all official U.S. credits to European CEMA countries went to Poland.<sup>6</sup> By that time the USSR had met virtually all of its obligations in connection with the official credits of the early 1970's.

In spite of the limits on government credits, socialist countries continued to borrow substantial sums in the private credit market until the beginning of the 1980's. Later, however, on the pretext of the events in Afghanistan and the state of martial law in Poland, the United States took an openly hostile stance and instituted several economic sanctions against the USSR and Poland.<sup>7</sup> Besides this, because of the rising prices of energy sources and the deterioration of economic conditions as a whole, Yugoslavia, Romania, and Poland were unable to make scheduled payments on international obligations. In 1981 and 1982 Romania and Poland had to ask official and private creditors to revise repayment schedules.

Western banks began to curtail contacts with most of the socialist countries (especially CEMA members) on their own initiative because they overestimated the credit risk and because they did not want to irritate the Americans and their own governments (although there was generally no direct pressure to do this). They did not want to extend medium-term credit. In addition, they lowered the internal limits for socialist countries, raised the credit margin,<sup>8</sup> reduced the repayment terms, recalled inter-bank deposits, and demanded the advance payment of import letters of credit and payment in cash. In essence, at the beginning of the 1980's an attempt was made to organize a credit blockade of the CEMA countries because the unofficial limits were extended even to countries whose solvency was never in question.

The "financial crisis" the socialist countries supposedly suffered cannot be compared with the debt crisis of the developing states in terms of scale or substance. At the beginning of the 1980's, for example, the USSR, Bulgaria, and the CSSR demonstrated their ability to do without the credits of the international loan capital market if these were to be extended on discriminatory terms. Romania, Yugoslavia, and Hungary were able to obtain relatively cheap IMF and IBRD credits, and Hungary received credit from the Bank for International Settlements (BIS). According to some Western estimates, the total (from all sources) net indebtedness of the

European CEMA countries decreased from 79.6 billion dollars to 59.9 billion just between 1981 and 1984.<sup>9</sup>

Western creditors soon realized that the crediting of socialist countries at the time of the debt crisis of the developing states was one reliable way of investing capital, especially since this stimulated trade. As a result, the margin banks charged over and above LIBOR began to decline quickly for socialist countries, and credit was extended for longer terms. In general, these two indicators are a graphic illustration of the rise and fall of East-West credit cooperation. The passage of the discriminatory laws in 1974 and 1975 and the crisis at the beginning of the 1970's, for example, led to a higher margin and shorter crediting periods, while now the socialist countries are receiving medium- and long-term credits on the best terms of the last two decades (see Table 1) [not reproduced]. In terms of "credit ratings" (assessments of credit risk), the USSR and the PRC, for example, rank 21st and 24th respectively among the states participating in international monetary and credit operations.<sup>10</sup>

In the first half of the 1980's U.S. credit relations with socialist countries suffered much more than Japanese, West German, or French relations with them, and the improvement of the credit climate after 1984 has affected American banks least; in general, the reduction of their operational volume continued. Noticeable activity was present only in relations with the PRC and Hungary, which are eligible for government-guaranteed credits. It is true that American banks have tried to develop relatively new forms of cooperation with the socialist countries, such as factoring (the purchase of accounts receivable), leasing (long-term rentals of vehicles and equipment), commodity exchange operations, and forfeiting (bank purchases of bills of exchange for socialist countries from American exporters without recourse).

The United States' credit relations with most socialist countries are still negligible in comparison with East-West credit cooperation as a whole and with the international operations of American banks themselves. Unfortunately, there are no complete statistics of U.S. credit relations with socialist countries (including government credits), but tendencies in this sphere can be judged by the total foreign demand bills of American banks (including overseas branches) (see Table 2) [not reproduced].

The changes noted in economic relations between the USSR and the United States after 1985 have had little effect on the state of monetary and credit relations. Agreements have been concluded with 11 American banks on letters of credit for substantial amounts, and payment, conversion, and deposit operations have been somewhat more active, but most of this cooperation is being developed through the overseas branches and subsidiaries of U.S. banks, and the total volume of operations is relatively small.<sup>11</sup>



### Monetary Reserves and the Role of the Dollar

The official monetary reserves of any state are kept primarily in the form of inter-bank deposits (for up to a year) and, to a lesser degree, in the form of the guaranteed government bonds or bills of the developed capitalist countries. International financial markets function exclusively on a non-cash basis, and for this reason the central and foreign trade banks of socialist countries, in charge of the management of official monetary reserves, also have to adhere to this practice. Most of the reserves of socialist countries are kept in Western banks, earn a certain amount of interest, and serve as something like a guarantee of the normal development of East-West economic cooperation (partners judge the level of credit risk by the level of these deposits).

It is clear that when monetary reserves are kept in this way, they can be seized or even expropriated in the event of a serious political conflict. The greatest danger in this context is presented by the use of American banks, in view of the U.S. administration's periodic use of sanctions and embargoes in the past. Furthermore, as long as the dollar continues to play the key role in international economic exchange, it will also occupy the most prominent place in the monetary reserves of all states. Reserves in a particular currency are usually kept in the banks of its country of origin. Back in the 1950's the socialist countries had already made an accurate assessment of the risk of keeping dollar reserves in U.S. banks and took steps to transfer them to West European banks. Incidentally, this helped to some extent in the creation of the Eurocurrency (originally only Eurodollar) market, although it would be wrong to overestimate the socialist countries' role in this process.

The problem of the security of the socialist countries' bank deposits abroad has still not been solved. The illegal seizure of the funds of the USSR Foreign Economic Bank in an American bank had great repercussions, even in the foreign press.<sup>12</sup> Financial claims connected with tsarist obligations served as the pretext. It must be said that the Soviet Union never acknowledged the debts of the tsarist government and that the settlement of claims in this sphere must be mutually beneficial, as in the case of Great Britain's dealings with the USSR (in 1986) and the PRC (in 1987).

Keeping dollar reserves in non-American banks does not guarantee their complete safety in principle. The fact is that any payments in U.S. dollars have to go through the New York clearinghouse (the system of inter-bank non-cash settlements) and for this reason the order to freeze the assets of a country can, at least theoretically, affect funds during the process of non-cash electronic transfers. Besides this, any dollar resources, even those in non-American banks, will return to the United States (to American banks or branches of foreign banks) either directly or through a chain of middlemen simply because transferred dollars can only be deposited in the United States at night because of the time differences ("dollars spend the night at home").

All of these circumstances objectively diminish the security of the monetary reserves of socialist countries, especially when the U.S. administration makes persistent attempts to extend the use of discriminatory restrictions to overseas branches of American banks. In this context, the British court decision on the freeze on Libyan deposits in a branch of the American Bankers Trust bank in London was of positive significance. The court demanded the unconditional fulfillment of the American bank's obligations to Libya (in dollars or in other currencies). This not only confirmed the commercial prestige of the London financial center but also set a necessary precedent for the guaranteed safety of the monetary reserves of any other country.

There is another reason for the diversification of the monetary reserves of socialist states and of their international payments in general. After the events of the early 1980's many began using the ecu (the EEC collective monetary unit), the Japanese yen, and some other currencies more actively. It is clear, however, that currency diversification has objective limits due to present-day international payment practices. The oil trade, for example, has traditionally been conducted in U.S. dollars, and the mere wishes of the socialist countries are not enough to change this. For this reason, the dollar will continue to occupy a prominent place in the official monetary reserves and transactions of socialist countries in the foreseeable future.

### Institutional Aspects of Cooperation

The participants in East-West monetary and credit cooperation on the American side are mainly large commercial banks and, to a lesser degree, investment banks and other financial institutions. Their partners are mainly the central, foreign trade, or overseas banks of socialist countries. They serve each other as correspondent banks, they conduct payment, conversion, deposit, and other operations, and they exchange information and various services.

In our opinion, the activities of socialist banks directly on U.S. territory and of American banks in socialist countries represent a form of cooperation of special interest. We have had relatively little experience in this field to date, but the development of this form of cooperation will clearly be furthered by the reinforcement of the institutional basis of East-West economic relations and the expansion of these relations.

At this time banking establishments from Poland, the PRC, Romania, and Yugoslavia are operating in the United States, and most of them were opened in the last 10 years. It is indicative that the CEMA countries' establishments in the United States perform only informational functions and maintain necessary business contacts. Only the branch of the Bank of China and the agency representing Yugoslav banks engage in a fairly broad range of operations, but even their activity consists mainly in services connected with bilateral trade relations.

Until recently the American banks' operations in socialist countries were also extremely limited. Several agencies were opened in the 1970's, and in 1974 a branch of Manufacturers Hanover Trust was opened in Bucharest. The situation began to change in the 1980's in the countries where economic reforms, including reforms in banking and the foreign economic sphere, were being carried out most energetically.

Citibank, Budapest—a joint bank in which 80 percent of the capital belongs to the leading American bank and 20 percent belongs to the National Bank of Hungary—was established in Hungary in 1986. From the very beginning the bank was endowed with the same powers as any purely Hungarian financial institution: It accepts deposits and extends credits in foreign and convertible currencies to around 70 Hungarian mixed enterprises, conducts leasing operations, and performs consulting services.

American banks have been even more active in the PRC, where they have opened numerous agencies as well as some branches and joint finance and credit institutions. In the same year of 1986, the China International Finance Company, a joint bank in which 20 percent of the capital belongs to the American Security Pacific Bank, began operating in Shenzheng. A leasing company was established by the First Interstate Bank of California and a Chinese bank. American banks in the PRC mainly finance foreign trade and serve enterprises with Western shareholders, but they are expected to be granted equal rights with Chinese banks in the future.

It is probable that controlled activity by foreign and joint banks in socialist countries could help to improve the economic mechanism and strengthen commercial cooperation and that it will continue to be developed. The same can be said of the socialist countries' banks in the United States and of joint banks in third countries. At this time joint financial establishments are operating in Hong Kong (with the participation of PRC banks) and London, where the Manufacturers Hanover Trust owns 20 percent of the Anglo-Romanian Bank (founded in 1973) and 25 percent of the Anglo-Yugoslav Bank (1980).

The agreement concluded in 1987 by the Moscow Narodny Bank (London) and Security Pacific Business Finance (Europe) on factoring services in Anglo-Soviet trade represents a relatively new form of cooperation in third countries. Security Pacific assumed the obligation to pay for British exports to the USSR and then collect these sums from Soviet purchasers under Moscow Narodny Bank guarantees. The sides expressed the intention to service at least 15 percent of all Soviet imports from Great Britain by 1988 and to extend this payment system to trade with other countries.<sup>13</sup>

The finance committee of the American-Soviet Trade and Economic Council (ASTEC), established in 1973, plays a definite role in U.S. monetary and credit relations with the USSR. The American side is represented by committee members from Citicorp, Chase Manhattan, First National

Bank of Chicago, Bankers Trust, Salomon Brothers, and other leading banks, and the Soviet side is represented by USSR Gosbank and the USSR Foreign Economic Bank. Unfortunately, the overall state of political and economic relations between the USSR and the United States made the meetings of the committee unproductive until recently. Today the situation is changing, and the committee could assist in the inclusion of new Soviet specialized banks in foreign economic operations, the resolution of problems in the financing of joint enterprises, the expanded use of new financial instruments, and the constructive discussion of promising joint projects (including purely banking projects).

An analysis of the institutional aspects of U.S. monetary and credit cooperation with the socialist states in the broader context would presuppose a discussion of the international monetary and financial organizations—the IMF, IBRD (including the International Development Association and International Finance Corporation), BIS, and the Asian Development Bank. For example, Hungary, Poland, Romania, Yugoslavia, the PRC, and the SRV are members of the IMF and IBRD, the PRC is a member of the Asian Development Bank, all of the European socialist countries but the USSR and GDR are members of the BIS, etc. The United States is active in the majority of international monetary and financial institutions, accounts for the majority of their financial resources, and therefore has considerable influence in them.

If the USSR were to join these and other international finance organizations, this would open up many new areas of cooperation going far beyond the boundaries of the monetary and credit sphere, would strengthen and enhance their prestige, and would promote the heightened interdependence of all states. The unconstructive approach still prevails in these institutions, however, and mainly due to U.S. influence. Even in the BIS, to which seven socialist countries belong, while the United States is represented only by commercial banks, negative feelings about the possible membership of the USSR are apparent.

The United States' monetary and credit cooperation with socialist countries still occupies an inferior position in its political, trade, and economic relations. We must admit that some of the obstacles to their development were created by these countries at the time when their foreign economic strategy frequently suffered from a lack of flexibility and consistency. The monetary and credit factor was often underestimated, and this limited the opportunities for cooperation in other spheres. For this reason, the elimination of the obstacles erected by the American side will not automatically lead to a substantial increase in American credits or the rapid growth of trade.

Nevertheless, conditions are more favorable today than ever before for perceptible progress in U.S. monetary and credit relations with socialist states and in trade and economic contacts with these states in general. First of all, the reform of the economic mechanism in many socialist

countries and the new approach to participation in international division of labor are creating broad opportunities for the development of all forms of cooperation on the condition of mutual benefit. Second, positive changes in USSR-U.S. political relations provide the hope of more stable East-West economic dialogue.

#### Footnotes

1. S. Porter, "East-West Trade Financing," Washington, 1976, pp 93-94.
2. WHARTON CENTRALLY PLANNED ECONOMIES SERVICE, 4 April 1986, p 10.
3. FINANCIAL TIMES, 2 November 1988.
4. JOURNAL OF THE U.S.-USSR TRADE AND ECONOMIC COUNCIL, 1986, vol 11, No 5/6, p 17.
5. S. Porter, Op. cit., p 33.
6. BUSINESS AMERICA, 9 June 1986, p 11.
7. Poland, in particular, lost most-favored-nation status and the right to use government export credits from October 1982 to February 1987. For more detail, see SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA, 1987, No 6, pp 62-68.
8. In present-day commercial practices the cost of credit is usually defined as a markup (or margin) added to the 3- to 6-month inter-bank rate on the money market. The London market rate, or LIBOR (London inter-bank offered rate), is used as the basic point of reference most often.
9. FINANCIAL MARKET TRENDS, February 1988, p 24.
10. INSTITUTIONAL INVESTOR, September 1988, p 226.
11. THE WALL STREET JOURNAL, 24 August 1987.
12. Ibid.
13. FINANCIAL TIMES, 16 December 1987.

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#### Polling Data on Public Opinion Towards USSR Surveyed

18030009c Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 3, Mar 89 (signed to press 15 Feb 89) pp 59-62

[Article by S.V. Gevorgyan: "American Public Opinion Concerning USSR: from Confrontation to Cooperation"]

[Text] Public opinion polls covering the broadest range of issues became a common and integral feature of daily life in the West long ago. The results are often published in the press, including the Soviet press. Journalists appreciate polling data because they are a fairly reliable barometer of the public mood in the country. Polls have recently been

conducted more extensively in the Soviet Union as well. After all, a knowledge of public opinion facilitates the determination of policy priorities in various fields.

During the 1988 presidential campaign in the United States, several polls were conducted under the common title "Americans Talk Security."<sup>1</sup> Understandably, many of the questions connected with this topic also concern Soviet-American relations, and the Americans expressed their opinions concerning the foreign policy of the USSR.

Obviously, the results of these polls are of considerable interest to the Soviet reader. How does the average American see the Soviet Union? Is the lack of trust that was so characteristic of the "cold war" era disappearing from the relations between the two countries? What has changed in attitudes toward our country in connection with the policy of perestroika and glasnost? What do Americans think about cooperation with the USSR? These are the questions which are answered by the data of this research project.

First, however, we should say a few words about the organization of the survey.

It was conducted jointly by four organizations—Market Opinion Research, Marttila and Keeley, the Daniel Yankelovich Group, and the Public Agenda Foundation. The first of these organizations is Republican-aligned, the second is Democratic-aligned, and the last two are independent. Because the survey was conducted for campaign purposes, 1,006 registered voters were chosen as the respondents. They were chosen according to a special system which theoretically guarantees a probable error of only +/-3 percentage points in 19 out of 20 cases. It is true that the probability of error is greater when the responses of specific population groups are analyzed.

Last but not least, various events in international and domestic politics can cause temporary fluctuations, either significant or insignificant, in public opinion with regard to some issues. For this reason, we should remember which major events took place just before or during the survey. For example, during the 2 weeks when this survey was conducted—from 25 June through 7 July 1988—a missile from an American cruiser shot down an Iranian civilian plane carrying 290 passengers over the Persian Gulf; the 19th party conference was held in the USSR; the U.S. Supreme Court upheld a federal law on the appointment of independent special prosecutors to investigate the activities of high-level government officials; Secretary of State George Shultz went to Central America to discuss matters connected with the cease-fire between Nicaraguan government troops and the contras; Italy consented to the deployment of American F-16 fighters on its territory in connection with the dismantling of U.S. bases in Spain. We should also remember that the summit meeting in Moscow was held approximately 3 weeks before the start of the survey.

So, what did the results of the survey tell us? The main conclusion we can draw from them is that American attitudes toward the USSR are changing. A new attitude

toward the USSR is taking shape quite rapidly within the fairly conservative society. This is interesting primarily because changes in American attitudes have to be taken into account by politicians and therefore become a tangible force influencing the development of Soviet-American relations.

What are the indications of changing American perceptions of us and our country? Whereas 67 percent of all respondents in 1980 believed that the United States should pursue a tougher line in relations with the USSR and only 20 percent supported the kind of policy that would alleviate tension in the interrelations of the two countries, today only 26 percent still support the tough line.

The survey indicated that Americans are firmly in favor of cooperation with the USSR, although they believe that this should be done with extreme caution and prudence.

When respondents were asked about the countries they trusted, around 6 out of 10 (61 percent) replied that they did not trust the Soviet Union (at all or to a considerable extent), and only 2 percent completely trusted the USSR. Of course, it is true that only 37 percent said they "do not trust the USSR at all," whereas 70 percent said this about, for instance, Cuba, and 79 percent said it about Iran!

However dated and hackneyed this statement might sound, the Americans' lack of trust in the USSR is largely due to propaganda in the news media. Of course, we cannot blame all unfavorable U.S. public opinion concerning our country on anti-Soviet propaganda, but in this case we have to say that it was the news media that were largely responsible for negative public opinion. Indirect proof of this can be found in the fact that the population groups least likely to accept common stereotypes (for instance, the most highly educated people) trust the USSR more. Many of them believe that Soviet-American relations are improving (68 percent of all respondents), including 62 percent of high school students, 67 percent of college students, 76 percent of college graduates, and 75 percent of post-graduate students.

Whereas 76 percent of the respondents in November 1985 believed that the USSR posed a serious threat to the United States, the figure was 57 percent in January 1988. The fact that the number rose slightly (to 60 percent) in June 1988 should probably not be regarded as a new trend, but simply as a possible error in calculation.

The majority of respondents chose 3 of the 19 possible actions the organizers of the survey listed as steps the USSR could take to strengthen trust, and we feel that these 3 were not even the most important. For example, the majority felt that the USSR should "limit the role of the secret police" (60 percent), while the belief that the USSR should "stop trying to turn our allies against us" ranked second (53 percent) and the idea that it should "give Third World countries more non-military assistance" ranked third (50 percent). The other possible USSR steps were the following: "curtail espionage and clandestine operations" (49 percent), "stop shipping weapons to Nicaragua and Angola" (45 percent), "allow

free elections" (42 percent), "give Eastern Europe more freedom" (38 percent), "let dissidents leave the USSR" (36 percent), "stop organizing communist revolutions in the Third World" (36 percent), "allow freedom of religion on a broader scale" (35 percent), "consent to comprehensive arms control inspections" (33 percent), and "allow freedom of the press and freedom of speech on a broader scale" (28 percent). Only 16 percent felt there was a need "take immediate steps to reach agreements on arms reduction and the development of trade" and only 24 percent agreed that "there is no 100-percent guarantee of the observance of treaties, but it is still necessary to take the risk." Nevertheless, 76 percent agreed there was a need for gradual and precise advances in cooperation with the Soviet Union.

The people who compiled the questionnaire wanted to learn American priorities with regard to fields of cooperation with the USSR. The list of priorities in this sphere will probably seem odd to the Soviet reader. The Americans put cooperation in the struggle against the illegal drug trade in the world at the top of the list—85 percent. The same number supported cooperation in the struggle against environmental pollution; 84 percent advocated the development of cultural contacts; and 36 percent supported the 50-percent reduction in strategic arms.

Therefore, the results of the public opinion polls testify to changes in American thinking in the last few years. They have taken place under the influence of several factors—the new leadership in the USSR, the Soviet-American summit meetings, the withdrawal of the Soviet military contingent from Afghanistan, and others.

People in the United States assign exceptional significance to internal changes in the USSR. The term "Gorbachev phenomenon" has become a permanent part of the political terminology of researchers and journalists. M.S. Gorbachev's popularity in the United States has been rising constantly ever since he was elected general secretary of the CPSU Central Committee. In June 1986, 51 percent of all respondents said they had a "good impression" of him; in 1988 the figure had reached 83 percent. It is interesting that a positive image is not a reason for Americans to trust a politician completely: Only 14 percent of the respondents "completely trust" Gorbachev (6 percent in January 1988). The number of those who "absolutely do not trust" him was reduced by half during the same period, dropping from 24 to 12 percent. Around 69 percent feel that Gorbachev can be trusted "to a certain extent."

When respondents were asked whether "significant changes" were taking place in the USSR under Gorbachev, 28 percent said yes, and the percentage was higher in the groups of more informed Americans: 31 percent of the college undergraduates and 35 percent of the post-graduates.

Answers to a question about the respondents' opinion of M.S. Gorbachev revealed approximately the same pattern: The answer "very good" was chosen by 31 percent

of all respondents, 32 percent of college undergraduates, 39 percent of college graduates, and 47 percent of post-graduates.

Cardinal changes in attitudes took place under the influence of the withdrawal of the Soviet military contingent from Afghanistan. Furthermore, the speed with which they took place is impressive. Whereas only 13 percent of the respondents in May 1988 said that the withdrawal of Soviet troops from Afghanistan had increased (or would increase) their trust in the USSR, by June the indicator had risen to 41 percent. These data suggest that the USSR's observance of its commitment to settle the Afghan conflict could break through the wall of American mistrust.

Of course, a factor such as the frequent, in comparison with the recent past, Soviet-American summit meetings could not fail to influence American attitudes. We know that summit meetings attended by the president have frequently given Americans a sense of elation and enthusiasm even when their results have been less than meager. For this reason, the meetings between R. Reagan and M.S. Gorbachev in Washington (December 1987) and in Moscow (May-June 1988) had a much stronger impact. Nine out of ten respondents (89 percent) said that these summit meetings should be held often, even when they do not involve the signing of arms reduction agreements.

Two other factors which have become apparent in recent years and which have influenced American opinions regarding Soviet-American relations warrant special mention. First of all, after associating the "Soviet threat" with the risk of nuclear war for a long time, today the majority of Americans (65 percent) feel that "nuclear weapons are more likely to be used by terrorists or by other countries than the United States and USSR." Second, they are much more concerned about the state of the U.S. economy: The threat of economic problems worries them more than the "Soviet threat." Around 62 percent said they wanted a president who could increase the country's economic strength, and only 33 percent wanted a president who would concentrate on strengthening national security. This is the direct opposite of the attitudes in the country during the 1980 campaign.

Therefore, serious changes are taking place in U.S. public opinion, especially in views on the prospects for the development of Soviet-American relations. This was reflected in the series of "Americans Talk Security" polls. What kind of conclusions can we draw from this?

First, although most of the Americans do not trust the USSR, they feel it would be too great a risk not to conduct talks with the Soviet Union. The insistence on dealing with the USSR from a position of strength, which was so typical until recently, is losing popularity. In 1988 only one out of five Americans (22 percent) was "firmly" convinced of the need to make every effort to achieve military superiority to the USSR. On the other hand, 56 percent "firmly" supported a search for ways of

concluding political and military agreements which would give neither side any reason to feel endangered.

Looking ahead to the period following the possible substantial reduction of nuclear arsenals, most Americans (55 percent) were in favor of a conventional arms buildup, but 34 percent supported steps to stop all forms of military competition with the USSR.

It is possible that the percentage correlations of opinions concerning some issues have already changed, but the "Americans Talk Security" survey is valuable because it revealed new tendencies in American attitudes. These tendencies attest clearly to more positive feelings about the USSR and the development of Soviet-American cooperation.

#### Footnotes

1. "The Americans Talk Security Project. A Series of Surveys of American Voters: Attitudes Concerning National Security Issues. U.S.- Soviet Relations: A Shift from Confrontation to Cooperation," NATIONAL SURVEY, July 1988.

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#### Discussion of Converting from Military to Civilian Production

18030009d Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 3, Mar 89 (signed to press 15 Feb 89) pp 88-93

[Report on meeting of Academic Council of Institute of U.S. and Canadian Studies: "The Problems of Converting Military Production"; words in boldface as published]

[Text] When M.S. Gorbachev addressed the 43d session of the UN General Assembly, he directed the world community's attention to the problem of **making the transition from an armament economy to a disarmament economy** and discussed the practical steps the Soviet Union is prepared to take in the near future for the conversion of military production. In view of the growing interest of the Soviet and foreign public in conversion, our journal is publishing a discussion of this matter at a meeting of the ISKAN [Institute of U.S. and Canadian Studies] Academic Council.

Institute Deputy Director A.A. Porokhovskiy, doctor of economic sciences, opened the discussion by stressing that the year of 1988 was a turning point in the development of human civilization in a certain sense. For the first time, lethal weapons began to be destroyed not on the battlefield, but on special test sites under peaceful skies. For the first time, the reorientation of purely military production for the manufacture of civilian goods was being considered not after a devastating war (as it was, for example, in 1945), but in peacetime.



After the Soviet-American INF Treaty was signed on 8 December 1987, the Soviet Union began the conversion of the military plants producing the missiles themselves, launchers, and delivery vehicles. As we know from the text of the agreement, these are the plants in Votkinsk, Volgograd, Petropavlovsk, and Sverdlovsk. In particular, the vehicles used to tow the destroyed missiles are being re-equipped for use as the chassis of mobile heavy-duty overhead cranes.

This is the second year that consumer goods production assignments have been issued to defense branches of industry. In 1988, for example, the plan for the manufacture of consumer goods in the production facilities of military enterprises totaled 27 billion rubles in retail prices, or 7.5 percent of the consumer goods output in the USSR (excluding alcoholic beverages). The USSR Council of Ministers has ordered defense branches to begin manufacturing equipment for light industry and the food industry.

M.S. Gorbachev's proposal of 16 September 1988, concerning the conversion of the radar station near Krasnoyarsk into an international center for the study of outer space for peaceful purposes, confirms the USSR's desire to gradually demilitarize its economy and accomplish conversion. The station has now been turned over to the USSR Academy of Sciences, which plans to make the arrangements for its use in conjunction with scientists from various countries with the assistance of the United Nations.

The problems of reorienting military production for the manufacture of non-military items, the retraining of personnel, and other elements of the conversion process are discussed in detail for the first time in a new VUZ political economy textbook, so that questions connected with conversion will become part of the general outlook of future specialists.

Today, however, practice in the conversion of our military production is slightly ahead of scientific research. The elaboration of theories of conversion and the means of its accomplishment in the USSR is being impeded by the limited nature of existing data on military expenditures and the defense industry. This is less a matter of secrecy than of our pricing system. Before we can assess the amount and structure of defense expenditures realistically, we have to reform the pricing system and bring prices in various branches and spheres of the economy in line with the new economic mechanism. The inestimable prices of land, water, and some other resources and the insistence on the completion of defense assignments "at any price" put the defense industry in a privileged position. This naturally distorted the prices of military products. They were too low in some cases and too high in others.

As we know, detailed data on the Soviet military budget should be published in the next few years. This will eliminate an important obstacle to the conversion of

military production for the manufacture of civilian products in accordance with plans. The publication of these data will also heighten public control of the effective use of funds for defense.

The absence of accurate statistics certainly does not mean that all of the work on conversion is being held up while we wait passively for the right moment. On the contrary, Gosplan, various ministries, VUZ and academy researchers, and specialists in industry have become involved in this work. We could even say that the compilation of a national program of military conversion is on the agenda. In view of the tremendous importance people attach to conversion abroad—in the United States, in the leading West European countries, and in the United Nations—we cannot delay any longer in making a decision on this program.

A Soviet-American conference on conversion was held in Chicago on 13 and 14 October 1988. I was asked to attend it as a representative of our institute. American speakers at the conference directed special attention to the destructive effects of military expenditures on the economy of the United States and of individual states. Furthermore, their speeches were theoretically valid and were also of practical value, so that the average American could understand what the expenditure of, for example, a billion dollars meant for the population of the United States as a whole or of an individual state or city.

The specific examples of the high cost of "defense" (for instance, in Chicago, which is suffering because tax dollars are not being used for civic improvements or for public services, but for military expenditures) made a tremendous impression. Suffice it to say that, according to the speakers' calculations, 35 American states lost jobs because of military expenditures, and only the remaining states, mainly California and Hawaii, experienced an increase in jobs because of military expenditures.

In some states, particularly Illinois and Ohio, special programs have been organized for businessmen and labor union officials to explain the possible ways of converting the military enterprises in these states and the social implications of this undertaking. Senators and members of the House of Representatives from many states have received instructions from their constituency on the position they should take on matters connected with military spending in the U.S. Congress. The American public regards the reorientation of military production as an important aspect of disarmament and as a solution to economic problems in the country as a whole and in each individual region, particularly those where the defense industry is most highly developed.

The United States has the most detailed statistics on military expenditures. This allows us to use the United States to illustrate the significance of cuts in military spending and the effects of this process on the economy. In view of the fact that a state of parity has been reached between NATO and the Warsaw Pact in the military sphere, we can assume that estimates compiled for the



United States will be applicable, in terms of natural rather than monetary indicators, to the USSR. Of course, during this process we have to consider differences in the economic structure, the level of technology, social consequences, etc.

As we know, intensive talks between the two countries on a 50-reduction in strategic offensive arms are now going on. The conclusion of this agreement would represent a decisive step in arms reduction in general. From the economic standpoint, however, this reduction will have a relatively small impact. The fact is that expenditures on strategic forces represented only 7.3 percent of all military appropriations in the United States in fiscal year 1987.

Options	First	Second	Third
Military appropriations in FY 1987, billions of dollars	287.4	287.4	287.4
Cuts in military appropriations:			
billions of dollars	16.1	61.3	128.6
%	5.6	21.3	44.7
Additional expenditures on verification, billions of dollars	3.0	6.2	9.0
Military appropriations after reduction, billions of dollars	274.3	232.3	167.8
Reductions in armed forces personnel, thousands of people:			
for entire period	126	500	1278
yearly average	25	100	128
Reduction of employees in defense production, thousands of people:			
for entire period	194	1133	1521
yearly average	39	227	152
Reduction in total military contracts for entire period, %	6.0	34.9	47.3

An analysis of the table indicates that the reduction of strategic arms by 50 percent in line with the first option will remove an average of 64,000 people (military personnel and defense industry employees) from the military sector each year, representing only 0.05 percent of the U.S. labor force. The reduction of military expenditures and arms in line with the second and third options would free many more people, but a well-planned and organized system of retraining, with a view to the overall skills of the people, would make it comparatively easy for them to find jobs in civilian industry.

As far as the losses of military-industrial corporations are concerned, they might amount to around 9 billion dollars in the first option, almost 50 billion over 5 years in the second, and 67 billion over 10 years in the third. Of course, the totals would not be divided equally among corporations and they would range from 1.7 billion to 10 billion dollars a year. For this reason, the reductions could affect corporations in different ways.

We must not forget that financial reserves in the budget could alleviate the problems created by conversion. The first option would free 2.6 billion dollars a year in military budget reserves, the second option would make more than 10 billion dollars available, and the third would free almost 12 billion dollars, all in comparison with FY 1987 appropriations. It is clear that these

Other reductions in strategic and conventional forces could have more impressive results. We must stipulate, however, that these estimates are only approximate and that they apply to all expenditures, including expenditures on the development, production, and maintenance of weapons and the applicable personnel.

Therefore, the 50-percent reduction in strategic offensive arms is the first option. The second is a reduction of 50 percent in strategic forces and the production of strategic arms and of 25 percent in conventional forces and the production of conventional arms in the next 5 years. The third is a reduction of 95 percent in strategic forces and of 50 percent in conventional forces in the next 10 years. The figures in the table indicate the economic and social impact of reductions.

resources could be used to assist corporations in the reorganization of their production base during the conversion period and to retrain personnel.

Conversion is closely related to other global processes. It could become a reality if the tendency toward improvement in the international situation grows stronger. Political decisions must pave the way for conversion. The first step here should be the creation of a system of international security, including economic security, and the maintenance of strategic stability at the lowest possible level.

L.I. Yevenko, doctor of economic sciences and ISKAN department head: All of us realize that the military pressure on our economy must be alleviated and that this is one of the elements of perestroika. Economics and politics will be closely related here. One of the most important questions concerns the ways in which we can spend less money to have better weapons on the one hand and to make facilities, which were developed over a long period of time, available for peaceful production on the other. I want to say something about the hope that the situation with regard to consumer goods could be changed by branches of the defense industry.

I must say that I have extremely skeptical feelings about this decision. I think this resembles the "sponsorship" of

rural communities, and we all know what the results of that were. They seem similar for many reasons. First of all, many serious studies have indicated that the group of industries working for the consumer goods market in the West is unique. This is a distinctive world. If we want to satisfy people's demands for goods and appliances today, we do not have to produce more. This is the mentality of the 1950's, which was contrived for a primitive and almost empty market. Unfortunately, we are wary of shortages today, and we believe that the more we produce, the better. The fact is that this is not true: Consumer demand is so varied that its satisfaction will necessitate a strong marketing network, a knowledge of consumer needs, competition, integration with foreign firms, and the use of expertise—furthermore, this must be managerial as well as technological expertise, and both in the sphere of marketing.

A.A. Kokoshin, corresponding member of the USSR Academy of Sciences and ISKAN deputy director: I believe that military conversion in our country should be closely linked with the prospects for radical military reform. The armed forces are an integral part of our society and serve specific foreign and domestic policy purposes. Furthermore, radical reform should not mean mere armed forces reductions of the type conducted under Khrushchev or what was done in our country in the 1920's, after the Civil War. It should have a minimum of four components: the reform of the authoritarian chain of command, the system of enlistment, the network of academic institutions, and the military purchasing system or, in general, the entire system of material and technical supply operations for our armed forces.

The purchasing system is extremely archaic and illogical. For instance, the Americans have armed their troops with three kinds of ICBM's, but we have seven. Why? Why does each branch of our armed forces issue its own requisitions and have several design bureaus working exclusively for it? It was originally assumed that each design bureau would build models of weapons systems and other items and that a few of the best would then be chosen on a competitive basis for subsequent dissemination.

Therefore, we should probably analyze military reforms in other countries—in the PRC, for example. The United States has also had some interesting experience in this field. What did it do after Vietnam? This is the first issue.

The second is the dramatic change in the nature of interrelations between civilian and military production in the last 20 or 25 years. It is true that many technological breakthroughs were once made for military purposes, especially in computer engineering, jet aviation, and other fields, and were then incorporated on a broad scale in the civilian sphere. In computers it was precisely during this phase that the lag came into being. We were "neck and neck," so to speak, in the development of large computers in the initial stage, when they were being developed for military needs. Our first large tube computers were no worse than the American computers. Then the Americans

moved to the commercial market, where competition and scientific expertise (which is also of great importance!) came into being immediately, irrespective of the interests of the military consumer and the military producer. In our country, however, everything remained primarily in the military enclave, and we were already falling far behind by the beginning of the 1970's.

Since that time military technology has taken the road of increasingly narrow specialization while civilian technology of a high level has entered the commercial market and is generally far superior to military technology. The opposite can also happen—but only in the West, and not in our country. We are still caught, so to speak, in the earlier cycle. In the West the "spin-off" has now been reversed. It was no coincidence that the United States insisted on Japan's participation in the SDI program. Without any large specialized military laboratories, Japan developed civilian supercomputers, new materials, communication systems, and much more. Incidentally, the Japanese were able to do this because they have the advantage of free communication in the international scientific and technological community.

There are sizable imbalances between us and the Americans in this sphere, and we must take them into account when we work on the problems of conversion. The first imbalance is of a technological nature.

Of course, there is a second imbalance—asymmetrical markets. At first, as long as our consumer goods market remains empty, I think that many of the durable goods (refrigerators, washing machines, and others) which will be mass-produced by defense enterprises will be sold on our market. This probably will not last long, however. When the real cost of this production is calculated, everything might change.

I once met the executives of several U.S. industrial corporations with extremely high military sales volumes. All of them were trying to diversify their production and sell a higher percentage of their goods on the civilian market with the aid of their high technological level. These attempts have been more persistent since 1985-1986, when the U.S. defense budget ceased to grow and then even began to decrease (in constant prices). Most of the attempts were unsuccessful, however, especially because of the strong competition from Japanese and West European firms and, to an increasing degree, from companies in South Korea, Taiwan, and Singapore.

Therefore, I repeat, there is considerable asymmetry in the economic and market conditions of our country and the United States. If we do not keep this in mind, we and the Americans will be simply unable to understand one another when we work on the problems of conversion in the near future. I feel that all of these matters should be taken into account when we examine these problems. I also feel that some of the people elaborating the theory of conversion should be specialists in certain technological fields, including military fields, and specialists from the defense industry.

G.B. Kochetkov, candidate of economic sciences and ISKAN sector head: After our department had analyzed the issue of conversion from the standpoint of organizational management, we decided that there are at least three fundamentally different levels here and that they must be kept separate.

The first is the technological level, or, in the broader sense, the level of technological production and production organization. It is the most frequently discussed level. The questions to be answered on this level are the following: How can military production be converted into civilian production? How can the production of some goods be organized in place of the production of others? These are questions concerning the use of technological facilities, the retraining of personnel, etc. We concluded that this is the level of the least interest to Americans because the majority of American firms change the items they produce quite frequently. In addition, the process of converting one type of production to another has been perfected there to some extent, and precisely in the civilian sphere.

The highest level is purely political. Changes in the political situation in our country and in theirs are most likely giving rise to some kind of consensus, and both of us therefore need to reorganize and modify the defense industry in some way to adapt it to the new political conditions. Without further serious political advances, however, we will not accomplish anything at all.

Now we must discuss the middle level, which we can refer to hypothetically as the economic-organizational level. I feel that this will be the most complicated level for us, and it is here that the fundamental difference between the two countries exists. Most American firms manufacture both military and civilian products, and frequently in the same facility and with the same work force. In our country, however, military production is completely separate. Whole cities work for the defense industry, and the entire social infrastructure in these cities is built around military enterprises. For this reason, during the conversion process we will have to solve not only technological problems but also the problem of changing the social structure of whole cities.

A.A. Nagornyy, candidate of historical sciences and senior scientific associate at the Institute of U.S. and Canadian Studies: I want to say literally just a couple of words about the Chinese experience, which I feel is extremely indicative. What did the Chinese do when they encountered these problems? First of all, they let the military industry into the commercial market within the country—this was the first phase. The second step was to authorize all enterprises, including defense firms, to operate on the foreign market. As the most advanced enterprises, the military firms were able to work more successfully with foreign partners. This, incidentally, helped them conduct their reform successfully. It is obvious that conversion in our country will also be impossible without a genuinely radical economic reform,

which will establish fundamentally new conditions for the interaction of various branches.

V.A. Fedorovich, doctor of economic sciences and lead scientific associate at ISKAN: There is no question that the problem of conversion will be of colossal significance in our country as well and will entail certain difficulties—not only technical, organizational, and technological ones, but also difficulties of a social nature. I think we should guard against oversimplification in our discussions of conversion in the United States. Here are two figures. Total current and future government military expenditures in the United States at the end of the 1980's have been estimated at 600-620 billion dollars. How can civilian goods and services be substituted for this volume of government contracts to weaken its impact on the economy? How can the 6.5 million permanent employees working on government military contracts be transferred to jobs connected with government or other non-military contracts?

Yu.I. Bobrakov, candidate of economic sciences and ISKAN sector head: Until recently, whenever American experts came to our country, we took them where they could get an answer to their questions about specific aspects of conversion in our country—to Gosplan. The answer they got there was simple: We have a State Planning Committee. It plans everything, and it will plan everything needed for the transfer of military production to civilian channels in the twinkling of an eye whenever the need arises. This satisfied them at one time, but now it satisfies neither our American partners nor us. For this reason, I think we must ask the concerned organizations to provide us with the basic statistics we will need even to conduct a dialogue on a more or less equal basis with our partners. When Americans talk about specific aspects of conversion, we make references to the American experience, or, at best, to our postwar experience, when the Ministry of the Tank Industry was transformed within a few weeks into the Ministry of the Tractor Industry, and so forth. We are almost unable, however, to talk about today's problems. Therefore, what we have to do now is develop the kind of system of statistics and facts needed for the discussion of this matter.

The results of the discussion were summed up by ISKAN Deputy Director R.G. Bogdanov, doctor of historical sciences. At his suggestion, the Academic Council decided to conduct a comprehensive study, under the supervision of A.A. Porokhovskiy, of the problems of conversion with a view to the comments made during this discussion.

The Economic Section of the USSR Academy of Sciences' Scientific Council for the Comprehensive Study of the United States also discussed the conversion of military production. The discussion was attended by academy and VUZ researchers, the personnel of the USSR Supreme Soviet, the Economic Research Institute of USSR Gosplan, the AUCCTU, the USSR Ministry of Defense, the Soviet Committee for the Defense of Peace,

and the Committee of Soviet Women, and representatives of other organizations and establishments. The participants agreed that the time had come to begin looking for comprehensive solutions to all of the problems of military conversion on the basis of scientific research.

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### North Atlantic Assembly Report 'NATO in 1990's' Criticized

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[Review by P.K. Bayev of "NATO in the 1990's. Special Report of the North Atlantic Assembly," Brussels, 1988, 39 pages: "A Program Without Prospects"]

[Text] The Western politicians' awareness of the need to consider long-range plans for European security is completely understandable. The report of a special committee, ratified as an official document by the North Atlantic Assembly in May, represents a serious attempt to solve this problem on the level of theory. This committee, headed by W. Roth, the American Republican senator from the state of Delaware, conducted hearings for a year and heard the testimony of numerous experts from several European capitals. The statements included in the final document have been discussed widely in the press and in special publications.

The report contains a comprehensive program for the transformation of the functions, objectives, commitments, and organizational structure of the bloc over the next decade, detailed in specific political recommendations. The well-considered and balanced nature of these recommendations should secure their acceptability as the basis for a broad consensus on future strategy. Nevertheless, both the contents of these recommendations and the overall idea of "NATO in the 1990's" aroused serious objections because of the skewed approach to the safeguarding of security. The authors' attempts to portray differing approaches as polar opposites could hardly be productive.

The main basic premise of the idea presented in this report is the thesis that only a powerful and cohesive military organization can guarantee Western Europe's retention of its position as a "island of calm in a turbulent sea" (p 17). The authors of the report propose their program as a development of the well-known "Harmel Report"<sup>1</sup> and insist that the two goals set 20 years ago have never changed: the buildup of NATO's military strength and dialogue with the East (p 20). Priority is clearly assigned to the first of these goals, which the Atlantic experts try to justify by constantly finding new "threats," including not only Soviet military strength but also the Soviet peace initiatives (p 26).

The authors of the report obviously had difficulty assessing the prospects for European detente and use the most general terms to describe the political environment in which NATO will be operating in the next decade. They focus attention only on the need to surmount the division of Europe—a problem which is also a focal point of the Soviet idea of the "common European home." The inflexibility with which this problem is linked with the division of Germany and the shift in emphasis to the separation of the East European countries from the Soviet Union with the tried and tested "stick and carrot" method (pp 36-37), however, are more reminiscent of the goals and means of the concept of "building bridges," an idea announced in the middle of the 1960's, than of the points of reference established by the Conference on Security and Cooperation in Europe.

The persistence with which the report stresses the key role of the United States in NATO, the irreplaceability of the American contribution to West European security, and the need to maintain the American military presence is striking (p 18).

The main distinctive feature of the new "political mandate" proposed in this document is the insistence on the reinforcement of NATO's "European base" (p 20). It is significant that this objective was assigned a much more modest place in a similar report prepared by the influential Atlantic Council of the United States.<sup>2</sup>

In addition to the now familiar theses regarding the equitable distribution of the burden of expenditures and responsibilities and the fuller use of the potential military capabilities of West European countries, a specific plan for their implementation is also included in the report (pp 22-23). This plan will entail the creation of a common European military market, the establishment of more efficient organizational bases for the "European base," and even the creation of a European division (similar to the Franco-West German brigade).

Although the authors of the document assign priority to the goal of strengthening NATO's "European base," they underscore two important points: first, that this base must not be regarded as an alternative to the bloc itself and, second, that its reinforcement should be geared to the implementation of the strategy of "flexible response." Therefore, although the Atlantic experts admit that the allies have been unable to develop armed forces meeting the requirements of this strategy in the last 20 years, they nevertheless recommend that the concept remain unchanged and that the goal of creating these armed forces be carried over to the next decade.

Alternative concepts (for example, the idea of "non-offensive defense") are also mentioned in the report, but only so that they can be rejected as "unrealistic" (p 27). This kind of categorical rejection indicates quite clearly that Western ruling circles are not ready for constructive debates on military doctrines. Incidentally, the report also rejects the strategy of "discriminate deterrence" proposed in the United States at the beginning of 1988 (p 28).

The development of the strategy of "flexible response" is to be secured by the modernization of nuclear and conventional forces. These two tasks are the central element of the "NATO in the 1990's" program.

In the sphere of nuclear forces, the prospects for modernization are defined in extremely vague and quite contradictory terms in the report. Although freeing Europe of nuclear weapons is acknowledged to be a valid and realistic goal, the possibility of attaining is admitted only in the distant future (p 28). According to the authors' estimates, the lowering of the level of the nuclear balance (this possibility is accepted with great reservations) should not lead to the complete removal of all nuclear weapons from Europe within the next decade (p 34).

The report says that the conclusion of the Soviet-American INF Treaty forced the revision of the plans for the modernization of nuclear forces recorded in the document approved in 1983 by the NATO nuclear planning group (the "Montebello decision"). The authors express the opinion that there is no longer any need to deploy new American nuclear weapons to compensate for the destroyed missiles. Nevertheless, they do propose a specific program for the deployment of a limited number of air-launched cruise missiles in Western Europe, which could be carried by planes transferred from the United States on a temporary but regular basis (p 29).

It is probable that the most interesting goal is the plan to shift the emphasis in NATO nuclear potential to longer-range systems not covered by INF Treaty limitations, to be accompanied by diminished reliance on tactical nuclear weapons (p 29). The wording of this objective, in spite of its ambiguity, leaves room for the conclusion of an agreement on the elimination of tactical nuclear missiles.

In the sphere of conventional forces, the general line of building up NATO potential is defined in categorical and unequivocal terms. The authors insist on the need for a broad consensus on this matter and even advise all opposition political forces to give up their "ideological" approaches—i.e., to give up the proposal of alternative strategies (p 31). The authors also stress, however, that Western public opinion is attaching less significance to the "threat from the East" and that this is resulting in broader support for cuts in military spending. On the assumption that this "limiting factor" could continue to have an effect throughout the 1990's, the report demands the redoubling of efforts to mold public opinion and the more scrupulous concentration of limited resources in key areas.

The authors feel that conventional forces can be improved while their reduction is being negotiated, but all references to disarmament in this document are based on the assumption of unilateral steps by the USSR and the Warsaw Pact and of incredibly asymmetrical reductions. The Warsaw Pact countries' initiative regarding the creation of zones of lower armament concentration

and the separation of the main military groupings by an agreed distance, which is being analyzed by many Western experts and has won support in official circles in several NATO countries, remained outside the bounds of the plans suggested in this report.

When we assess the document as a whole, we must agree with the comment by Dutch parliamentarian L. Budts, quoted in a supplement to the report: The views of the committee do not reflect those of the main political current in present-day Europe—the movement for disarmament and detente (p 39).

#### Footnotes

1. This is a reference to a report by a special committee chaired by Belgian Foreign Minister P. Harmel on "the future objectives of the alliance." It provides a broad interpretation of the functions of NATO as a military bloc and as a political instrument of detente (see G.A. Vorontsov, "SShA i Zapadnaya Yevropa" [United States and Western Europe], Moscow, 1979).

2. "NATO to the Year 2000: Challenges for Coalition Deterrence and Defense. Report of the Atlantic Council's Working Group on the Future of NATO," Washington, 1988.

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#### Business Role in U.S. Campaign Financing Described

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[Article by Devis Yakovlevich Bratslavskiy, candidate of historical sciences and scientific associate at Institute of U.S. and Canadian Studies: "The Financing of Campaigns by the U.S. Business Community"]

[Text] What does it take to run for elected office in America? Formally, all it takes is a declaration of the intention to run. But how do people win elections? Any American voter knows that a solid campaign fund is half the battle. Under the effects of inflation and the use of the latest computerized equipment, campaign costs are rising in geometrical progression. Campaign costs hit a new record high in 1988. According to preliminary estimates, they exceeded 500 million dollars.

As a rule, the relatively small substratum of the richest people, known in America as "fat cats," is usually responsible for the lion's share of contributions.

Throughout the history of U.S. politics, starting with colonial times, the money of the business community has played an important role in elections. Back in 1757, when G. Washington was running for parliament in Virginia, he was convicted of "violating election standards" when he used the products of local businessmen for campaign purposes. In the last century the record for



investments by the business community in a presidential campaign was set in 1896, when a total of 3.5 million dollars was contributed to the campaign fund of Republican W. McKinley. The largest contributor was the Standard Oil Company (250,000 dollars). After this, each campaign cost more than the one before.

The very possibility of influencing election results with money, the dependence of candidates and nominees on their financial backers, and the battles between various corporate groups for the election of their representatives to the White House, the Congress, and gubernatorial offices give rise to corruption and various financial machinations. The public is disturbed by big business' growing influence in the electoral process. This is why U.S. ruling circles occasionally have to pass laws for at least the partial limitation of the influence of "big money."<sup>1</sup>

Since 1867, 13 laws have been passed in the United States to regulate campaign financing. All of them, however, have been of a cosmetic nature and have not stopped the overt interference of so-called special interest groups in the electoral process.

The 1974 act, which is now the basic law on political financing, set new limits on the size of financial contributions in presidential campaigns. It allows donations of up to 5,000 dollars to the campaign fund of a single candidate from the so-called political action committees (PAC's) established by banks, corporations, associations, foundations, labor unions, or individuals specifically for this purpose. The law also amplifies earlier provisions regarding the "public financing" of presidential campaigns: Total funds cannot exceed 5 million dollars for each candidate (this limit could be raised to offset inflation). A special presidential campaign fund was established for federal financing. This part of the law does not apply to the campaign financing of members of legislative bodies: The congressmen themselves did not want this. Finally, the law obligates presidential candidates to submit reports on campaign expenditures and sources of financial contributions quarterly and no later than 30 days after elections. A Federal Elections Commission—a bipartisan body whose members were to be appointed by the president, the speaker of the House, and the chairman of the Senate—was established to enforce this law.

The barriers this act set up in the path of "big money" turned out to be easily surmountable. For example, whereas total contributions from special interest groups to the campaign funds of candidates for various federal offices in 1974, when the new law was already in force, amounted to around 12.5 million dollars, the indicator for Senator L. Bentsen alone in 1988 was 7 million dollars at the time he received the vice-presidential nomination.<sup>2</sup> No American senator had ever had such a solid campaign fund before.

The legislation of the 1970's stimulated the creation of more PAC's by sectorial business associations. To take

part in the financing of campaigns without losing their tax-exempt status, the associations established formally independent PAC's, which can function openly to secure financial support for the business community's candidates. The largest and most politically active PAC's operate under the auspices of the American Petroleum Institute, the Independent Petroleum Association of America, the American Trucking Association, the National Bankers Association, and many other associations with hundreds of thousands of members.

An important role in the political financing of the U.S. business community's candidates is also assigned to so-called ideological PAC's—i.e., those supporting the ideological platform of the candidate rather than the individual. The largest are the rightwing organizations called the Congressional Club, the National Conservative Political Action Committee, the United Congressional Appeal, Citizens for the Republic, and others. The largest contributors to the funds of these PAC's are ultra-conservative businessmen—Technicolor Chief Executive P. Frawley, the Hunt, Milliken, and Pew families, and others. During the last campaign conservative PAC's donated tens of millions of dollars to the campaigns of G. Bush and some of the other most expensive campaigns (for example, the congressional campaigns of P. Wilson, R. Dornan, R. Orr, and other leaders of the "Conservative Caucus"). As the "conservative wave" in America began to recede, however, the influence of these PAC's in elections was also reduced.

The forces opposing the conservatives, on the other hand, became much more active, and they also have a broad network of ideological PAC's. The largest is the National Committee for an Effective Congress, one of the few organizations raising funds exclusively through the mail (making the verification of the size of contributions difficult). More than half of the money this organization collects is contributed by the relatively liberal (by American standards) segment of the national business community (for example, President G. Sherman of the Midas Muffler Company, General Motors board member S. Mott, California financiers D. Stein, F. Sheaffer, and S. Moses, and New York businessmen F. Dickinson and M. Lazar, who were among the first financial backers of M. Dukakis in his 1988 campaign). Senators E. Kennedy and C. Pell, Congressmen E. Markey and S. Solarz, and others regularly receive campaign donations from the PAC's described as liberal in America.

There are no legal restrictions on individual contributions or on the total campaign expenditures of ideological PAC's. These organizations are regarded as formally independent entities and support, as we already said, the ideological aims of the candidate rather than the individual candidate, and this, from the legal standpoint, cannot lead to a conflict of interests.

The campaign financing laws and the practice of the partial federal funding of campaigns have not led to any significant reduction in the expenditures or limitation of



the influence of financial donors in elections. In particular, it has been impossible to limit the role of PAC's in campaigns. Their total contributions have quadrupled in the last 10 years, and their contributions to Senate campaigns have increased ninefold in the same period. A Senate seat now costs 3 million dollars, but experts have calculated that it will cost three times as much in 1992. Can an unsubsidized candidate seriously hope to win under these conditions?

There are many ways of circumventing the laws on campaign financing. Here is one of the ways used to camouflage the business community's donations to the campaigns of its proteges: A corporation buys all of the tickets to various fund-raising dinners for a candidate. Each ticket usually costs several hundred dollars, or even several thousand. During the 1988 campaign, for example, M. Dukakis, the Democratic Party's presidential candidate, collected 2.2 million dollars at just one such dinner in Boston, and the gala held at the end of the Democratic convention in Atlanta supplied the party with 4 million dollars. The main financial sponsors were influential Massachusetts businessman R. Farmer and the heads of the leading electronic corporations in the state—A. Wang (Wang Laboratories), J. Hanson (Prime Computer), and J. Cullinane (Cullinet Software). Dukakis' rival in the November election, G. Bush, collected almost 5 million dollars at just four such events, but the total amount he raised in this way during the campaign was 20 million dollars. Members of the Bush team took an active part in organizing these gatherings—N. Brady, the head of Dillon Read & Co., a Wall Street investment firm; R. Darman, member of the board of another Wall Street investment company, Shearson, Lehman & Hutton; C. Knight, head of the Emerson Electric firm; and R. Mosbacher, oil magnate from Houston. Baker took charge of Bush's campaign, using his tremendous influence in the U.S. business community, just as he had in 1980.

The methods the business community uses to circumvent existing laws include the provision of the candidate with gifts and services at company expense, including accommodations, computers, consultants, air time, newspaper coverage, and advertising. It is quite common for businessmen to offer candidates the use of company cars<sup>3</sup> or to pay their telephone and other utility bills and the costs of telegraph and postal communications.

An important channel of campaign financing is the transfer of funds through the mail. The only legal stipulation in this sphere is that individual contributions must not exceed 1,000 dollars. The number of contributions under 1,000 dollars is virtually unlimited, and contributions of under 100 dollars are not even recorded in campaign financing reports. In 1988, for example, the Democratic Victory Fund (this was the name given to the Dukakis-Bentsen ticket) received 10 million dollars from half a million donors through the mail.

Another important channel is the extension of loans and credits to candidates by various financial institutions. Federal agencies do not regulate the size and terms of these loans.

Another business maneuver used to skirt the law is the augmentation of corporate contributions to local party campaign funds. These contributions are not limited by law because they are formally designated for the registration of voters and the encouragement of voters to go to the polls on election day, but after the election the money is used to pay the campaign expenses of various candidates or is secretly handed over to the candidates. These millions of dollars, known as "invisible money" in American political terminology, probably represent the biggest loophole in existing legislation. The exact amounts are virtually impossible to ascertain because the national committees of both parties keep them secret. According to data leaked to the press, the main contributors of the "invisible money" in 1988 included J. Kroc, the owner of the McDonald's fast-food chain, who made the largest single contribution in the history of the Democratic Party—a million dollars—and representatives of Citicorp, Texaco, Atlantic Richfield, and other giant companies. The Republicans' largest contributors in 1988 included Philip Morris, Bethlehem Steel, Morgan Guaranty Trust, and Celanese.

Candidates are obligated by law to publish lists of their financial donors, including their titles and company names. Many donors, however, are listed as "housewife," "dependent family member," and so forth. Formally, this is not a violation of the law, but it does give businessmen another opportunity to subsidize campaigns by involving as many of their relatives and friends as possible in the process. The business community was also benefited greatly by the special GAO resolution allowing campaign funds to publish data on financial donors only after they had spent a specific amount of the funds raised.

Two IRS decisions also helped the business community. The first was the decision that financial contributions of under 3,000 dollars could be deducted from taxable income, and the second extended this status to contributions in the form of corporate stock on the condition that the candidate use the profits from the stock during his campaign and that the original value of the stock revert to the donor.

There are also state laws obligating candidates to publish lists of financial donors, but these are virtually unenforceable in the 25 states with no limits whatsoever on the size of individual contributions; in the 41 states with no limits on the amount a candidate can spend on his campaign; and in the 29 states where financial contributions are not taxable.

An interesting trick is used on the local level by the business community to circumvent the 1940 Hatch Act, which prohibits the financing of campaigns by federal employees. For example, employers frequently turn over financial contributions on behalf of federal employees to the so-called "floral funds" in all states. The money in these funds is formally earmarked for various festivities and official ceremonies. The budget of these funds is quite large, however (the contribution of each employee

represents 2-7 percent of his annual salary). This allows local politicians to use part of the money for their campaign needs. There was a big scandal in Louisville, the biggest city in the state of Kentucky, for example, when it was learned that W. Couger, the mayor of the city in the 1970's, regularly used money from this fund to pay his campaign expenses. It also became common knowledge at that time that part of the money in the fund belonged to local businessmen.

In general, the passage of campaign financing legislation in the 1970's only modified the forms and methods of private financing by giving business various opportunities to evade the control of federal regulating agencies. According to G. Alexander, a prominent expert on political financing: "The more things change, the more they stay the same."<sup>4</sup>

The days when big capital was inclined to support one party are gone.

Data on contributions to the campaigns of presidential candidates, congressional leaders, local legislators, governors, mayors, and other candidates for federal office testify that they receive considerable support from the business community whether they are conservative Republicans or moderate (and even liberal) Democrats. This happens because most large contributions are not made by disinterested parties. In exchange for their donations, businessmen expect the candidate to be "sympathetic" to the needs of the business community. For example, the changing of the guard in the Senate in 1986 was partially the result of the position taken by the business community when it began diverting most of its contributions to the campaign funds of Democratic candidates. This was reflected in the activities of the Senate in 1987- 1988, when the Democratic Party as a whole received a high "rating" from the main lobbying organization of the business community—the U.S. Chamber of Commerce.

During the 1988 campaign Dukakis was, according to reports in the press, the only Democratic Party candidate who openly announced his intention to "work with the corporations, and not against them" after the election.<sup>5</sup> Statements of this kind, made at a time when the level of support from businessmen among the voters fell to the lowest point in the last 20 years, contributed to the growth of donations to the Dukakis campaign fund by businessmen. Just before the Democratic national convention, for example, more than 240 businessmen announced their intention to contribute almost 42 million dollars to the party presidential fund. They included Texas oil magnate J. Calloway, North Carolina owner of the R.J. Reynolds tobacco empire M. Begley, and others, who contributed 500,000 dollars each. Another factor in Dukakis' favor was his considerable experience in communicating with businessmen when he was the governor of Massachusetts. Federal Elections Commission data testify, for example, that the governor "received hundreds of thousands of dollars" from business interest groups.<sup>6</sup>

As for the Republicans, their candidate, G. Bush, had the unconditional support of the American business elite even during the primaries. Just before the decisive phase of the presidential race, 86 percent of the chief executive officers of more than 200 of the country's largest corporations came out in support of Bush. Commenting on this, the magazine of the U.S. business community, FORTUNE, observed that "American big business is supporting Bush in the hope that he will indulge it in various ways by carrying on the policies of President Reagan."

The flurry of activity by the U.S. business community in the 1988 presidential campaign was due partly to the fact that the men running on both party tickets were not simply "extremely wealthy" Americans, but multimillionaires. This applies above all to the vice-presidential candidates—Democrat L. Bentsen and Republican D. Quayle. After calculating the financial assets of the rival pairs ad nauseam, local reporters decided that their "weight in dollars" was approximately equal.

The American business community's hope of securing its own economic interests regardless of the party winning the race is reflected most clearly in congressional campaign financing. In the 1988 campaign, for example, the incumbents on Capitol Hill received five times as much money from business PAC's as their unfamiliar challengers.

Because businessmen have a stake in the votes cast by the future member of Congress, they usually contribute larger sums to "proven" congressmen who are running for reelection and rank high among the members of the congressional committees of key importance to business. Furthermore, the candidates' party affiliations are not the deciding factor. In the House of Representatives the largest contributions from the business community are received by the members of the Ways and Means Committee, which has jurisdiction over income and tax matters, customs duties, excise taxes, tariffs, bilateral trade relations, and other matters of the greatest interest to the business community. According to former Senator W. Proxmire, "by influencing...decisions by the Ways and Means Committee on even slight changes in tax legislation, business puts millions of dollars in its own pocket."<sup>7</sup>

According to statistics, financial contributions from business groups have a great deal of influence on votes in Congress on matters of economic policy, in which the conflicts between various groups of monopolist capital are particularly acute.

In 1988, for example, seven members of the House Committee on the Armed Services received large sums from defense contractors for their campaign needs in exchange for the appropriate votes. The PAC's representing the interests of 67 giant military-industrial corporations donated most of the funds they raised to congressmen on the key congressional committees responsible for defense allocations. Democrat D. Riegle, who became the head of the Senate Banking Committee in January this year, had already received 800,000

dollars from the PAC's of banks and other financial institutions for his campaign fund two and a half months before the November 1988 election in exchange for his support of a law authorizing banks to buy and resell commercial paper. The banking lobby also deposited hundreds of thousands of dollars in the campaign funds of other members of the banking committees of the two congressional houses where this law was being discussed.

There were even some who did not have to worry much about raising campaign funds. Some examples are the multimillionaire Senators J. Heinz and F. Lautenberg and wealthy businessman H. Kohl, the owner of a supermarket chain in Wisconsin. The latter spent 4 million dollars out of his own pocket on advertising in the last campaign. This was enough to win a Senate seat. After his victory, Kohl made the smug announcement that he was "so rich that no special interest group could buy him."<sup>8</sup>

The control of the electoral process on the state and local levels by the business community is particularly effective and unceremonious. This control becomes all the more obvious as the cost of the campaign rises. Each state has its own laws regulating local campaign financing. For this reason, more or less precise descriptions of the campaign financing methods of the business community present much more difficulty on the local level than in national campaigns (presidential and congressional). In the states where the direct financing of campaigns by corporations is permitted, they have no need to establish PAC's. For instance, in Nebraska or Wisconsin, most of the financial contributions of business groups are made through individual donations, the size of which is not limited by law. In other words, corporate contributions are made by individual donors. In the state of California, on the other hand, where limits are set on financial contributions, PAC's usually account for more than 70 percent of all campaign contributions.

In some states referendums on the most diverse matters are regularly held at the same time as national elections. In the past the campaigns for the passage of initiatives concerning business interests have been the most expensive. Business groups in California, for example, spend more money on these than on any other political campaigns in the state, the cost of which, incidentally, amounted to 80 million dollars in 1988, or almost double the 1986 figure. Because there are no legislative limits on expenses or financial donations in these campaigns, the business community can feel particularly free here. It is not surprising that business groups in the state spent millions of dollars in 1988 to defeat an initiative which would have set limits on campaign expenses. This would have undermined big capital's influence in elections. When the Council on Economic Priorities conducted a study of the financing of 17 such campaigns (dozens are held across the United States), it learned that in 14 cases the amount contributed by business groups was more than double the amount spent by their opponents.

An analysis of the results of votes on many initiatives concerning business interests testifies that the business

community's financing of these campaigns has paid off in most cases, in spite of the unfavorable results of public opinion polls. Just a month before the vote on the initiative which would have prohibited smoking in public places in the state of California, for example, public opinion polls indicated that 65 percent of the state's population supported the initiative while 31 percent did not. The molding of voter opinions by giant tobacco corporations, which invested 2.8 million dollars in this campaign (and a large part of the sum was spent in the very last weeks before the election), however, worked: 53.4 percent voted against the initiative.

Data on the sources of campaign financing testify that the correlation of financial contributions in a campaign is directly proportional to the distribution of capital in this country where the political system is being influenced more and more by a small group of rich people who can afford to make large campaign contributions.

It is true that the business elite is now using more enlightened methods of influencing the electoral process: Overt graft, which was such a common practice just recently, is giving way to the "legal" use of all types of loopholes in legislation by capital. In this context, the 1988 campaign broke all records for the collection of the previously mentioned "invisible money." During the presidential campaign alone, for example, the candidates of both parties collected, according to preliminary data, around 150 million dollars in these funds. Judging by all indications, this is becoming the main channel of political financing and often produces political results benefiting the business community.

Of course, not all politicians who receive large financial contributions from the business community take the side of the U.S. business elite in their campaign speeches. Many of them openly attack big business and the establishment in general, using the populist rhetoric that is so appealing to the average voter. All of this is completely in line with American political practices in view of the fact that campaign rhetoric rarely determines post-election policy.

#### Footnotes

1. For more detail, see N.A. Sakharov, "The Role of Money in American Elections," *SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA*, 1984, No 12, pp 8-11—Ed.

2. "Dollar Politics," Washington, 1982, p 18; *INTERNATIONAL HERALD TRIBUNE*, 27 July 1988. It is interesting that L. Bentsen's Senate campaign fund (the size of which is not limited by law) continued to grow even after the senator's name was included on the national ticket of the Democratic Party. This secured additional support for the Democrats because any ad for Bentsen's re-election to the Senate was certainly also an ad for the party's presidential duo.

3. In 1988, for example, the General Motors corporation supplied the two party conventions with 250 automobiles each for free. According to reports in the press,

several large companies (Coca-Cola, BellSouth, Delta Air Lines, and others for the Democrats, and Exxon, Amoco, Chevron, and others for the Republicans) essentially assumed financial responsibility for the conventions, which cost tens of millions of dollars.

4. THE WASHINGTON POST, 17 July 1988.

5. NATIONAL JOURNAL, 7 May 1988, p 1196.

6. Ibid., 30 April 1988, p 1117.

7. U.S. NEWS AND WORLD REPORT, 28 May 1984, p 50. The same thing happens in the Senate. For example, the chairman of the influential Finance Committee, the previously mentioned Bentsen, set fees for business lobbyists. Each meeting with the senator cost 10,000 dollars. Is it surprising that he is one of the leaders in the "ratings" of the U.S. Chamber of Commerce?

8. THE NEW YORK TIMES, 10 November 1988.

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